CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

July 27, 2006

Honorable Charles B. Rangel
Ranking Democrat
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Congressman:

At your request, the Congressional Budget Office has reviewed the amendment in the nature of a substitute to H.R. 4157, the Health Information Technology Promotion Act of 2006, as specified in H. Res. 952, which was reported by the Committee on Rules on July 26, 2006.

The amendment to H.R. 4157 would amend the Public Health Service Act (PHSA) to codify the establishment and responsibilities of the Office of the National Coordinator for Health Information Technology. In addition, the bill would modify the Social Security Act to:

- Establish "safe harbors" that would permit gifts of health information technology that might otherwise be subject to civil monetary penalties, criminal penalties, or sanctions for violating the prohibitions against certain types of inducements for physician referrals; and

- Specify procedures for adopting updated standards for the electronic exchange of health data, and require that certain updated standards for coding medical services be implemented by October 1, 2010.

The bill would authorize the appropriation of $20 million in each of the fiscal years 2007 and 2008 for grants to facilitate the adoption of certain health information technology. In addition, the deadline for updated standards for coding medical services would affect administrative costs for the Medicare program, which are subject to appropriation—resulting in added costs initially, and savings in subsequent years. Assuming appropriation of the necessary amounts, CBO estimates that implementing the bill would increase discretionary spending by $163 million over the 2007-2011 period and reduce such spending by $114 million over the succeeding five years.

CBO estimates that enacting the bill, as amended, would increase federal direct spending for the Medicaid program by $5 million over the 2007-2011 period, and would reduce such spending by $125 million over the subsequent five years. We estimate that enacting the bill would reduce federal revenues from income and payroll taxes by $15 million over the 2007-2011 period, and would increase federal revenues by $63 million over the following five years.

The estimated cost of H.R. 4157 is shown in the following table. The costs of this legislation fall within budget functions 550 (health) and 570 (Medicare).

ESTIMATED BUDGETARY EFFECTS OF A SUBSTITUTE AMENDMENT TO H.R. 4157

	By Fiscal Year, in Millions of Dollars											
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2007-2011	2007-2016
CHANGES IN SPENDING SUBJECT TO APPROPRIATION												
Grant Programs												
Estimated Authorization Level	20	20	0	0	0	0	0	0	0	0	40	40
Estimated Outlays	4	14	14	5	1	1	0	0	0	0	38	39
Medicare (ICD-10)												
Estimated Authorization Level	0	0	200	15	-185	-20	0	0	0	0	30	10
Estimated Outlays	0	0	50	70	5	-5	-70	-40	0	0	125	10
Total, Changes in Discretionary Spending												
Estimated Authorization level	20	20	200	15	-185	-20	0	0	0	0	70	50
Estimated Outlays	4	14	64	75	6	-4	-70	-40	0	0	163	49
CHANGES IN DIRECT SPENDING												
Medicaid (ICD-10)												
Estimated Budget Authority	0	10	20	-10	-15	-35	-30	-25	-20	-15	5	-120
Estimated Outlays	0	10	20	-10	-15	-35	-30	-25	-20	-15	5	-120
CHANGES IN REVENUE												
Implementation of ICD-10												
Income and HI Payroll Taxes (on budget)	0	0	-5	-4	-1	10	9	9	7	6	-10	31
Social Security Payroll Taxes (off-budget)	0	0	-3	-2	0	5	5	5	4	3	-5	17
Total, Changes in Revenue	0	0	-8	-6	-1	15	14	14	11	9	-15	48

Note: ICD-10 = 10th revision of the International Classification of Diseases, HI = Hospital Insurance (Part A of Medicare).

Spending Subject to Appropriation

The bill would authorize the appropriation of $15 million a year for 2007 and 2008 for grants to integrated health systems to promote the adoption and use of health information technology for the purpose of improving coordination of care for uninsured and underserved populations. In addition, it would authorize the appropriation of $5 million a year for 2007 and 2008 for grants to small physician practices located in rural or medically underserved areas for the purchase and support of health information technology. Based on spending patterns for similar programs that provide grants to health care providers, and assuming appropriation of the specified amounts, CBO estimates that implementing those grant programs would cost $38 million over the 2007-2011 period and $39 million over the 2007-2016 period.

The bill would require health plans, providers, and clearing houses to adopt the 10th revision of the International Classification of Diseases (ICD-10) by October 1, 2010. That target date is about two years earlier than CBO expects the new classification system to be implemented under current law. Medicare's spending to implement, operate, and maintain claims-processing systems—including the cost of the transition to the ICD-10 system—is subject to appropriation. In general, accelerating implementation of the ICD-10 system would shift some implementation costs from the 2010-2014 period to years beginning in 2008. Assuming appropriation of the necessary amounts, CBO estimates that Medicare would incur additional costs of $125 million over the 2008-2011 period to implement the ICD-10 system by October 1, 2010, and that it would save $115 million over the subsequent five years (because the costs would be incurred earlier).

Direct Spending and Revenues

Two provisions of the bill could affect direct spending or revenues over the coming decade:

- Requiring health plans, providers, and clearing houses to adopt ICD-10 by October 1, 2010; and

- Establishing "safe harbors" that would permit gifts of health information technology that might otherwise be subject to civil monetary penalties, criminal penalties, or sanctions for violating the prohibitions against certain types of inducements for physician referrals.

On July 26, 2006, CBO produced a cost estimate for H.R. 4157 as ordered reported by the Committee on Ways and Means on June 15, 2006. That estimate described the basis for our estimates for related ICD-10 and safe-harbor provisions. This amendment would modify both of those provisions by:

- Changing the date of adoption of the ICD-10 coding standards from October 1, 2009, to October 1, 2010; and

- Limiting the types of entities eligible for the safe harbors.

Those changes account for all of the differences between CBO's estimate for this version of the legislation and the July 26, 2006, cost estimate.

ICD-10. Enacting the deadline for adopting the ICD-10 coding system would accelerate both the costs of implementing that coding system and the subsequent realization of savings for health benefits. CBO estimates that the net effect of accelerating implementation of the ICD-10 system would be to increase the cost of private health care benefits and health insurance premiums in the near term, and decrease such costs in later years. Those changes would affect the share of employees' compensation furnished as tax-excluded health benefits. As a result, CBO estimates that enacting that provision would reduce federal revenues by $15 million over the 2007-2011 period, and would increase federal revenues by $63 million over the subsequent five years. Enacting that provision also would increase federal direct spending for Medicaid by $5 million over the 2007-2011 period and would reduce federal Medicaid spending by $125 million over the succeeding five years, we estimate.

Safe Harbors. The safe-harbor provision would permit hospitals, medical groups, Medicare Advantage plans, and prescription drug plans to donate health information technology to physicians. In addition, it would permit the Inspector General of the Department of Health and Human Services or the Centers for Medicare & Medicaid Services to include other entities after balancing program-integrity considerations and the objective of promoting the adoption of health information technology. In CBO's view, that provision would not significantly change the safe harbors that will be available under current law. Accordingly, CBO estimates that enacting the safe-harbor provision would not affect direct spending.

CBO expects that the use of information technology in the health sector will continue to grow under current law, and that expanded use of such technology will likely produce improvements in the quality of the health care provided to U.S. residents. Overall, CBO expects that enacting H.R. 4157 would not significantly affect either the rate at which the use

of health technology will grow or how well that technology will be designed and implemented. Therefore, with the exception of the effects on spending described above, CBO estimates enacting the bill would have no effect on spending by the federal government.

I hope this information is helpful to you. The CBO staff contact for further information is Tom Bradley.

Sincerely,

Donald B. Marron

Donald B. Marron
Acting Director

cc: Honorable William "Bill" M. Thomas
Chairman

Honorable Nancy L. Johnson
Chairman
Subcommittee on Health

Honorable Fortney Pete Stark
Ranking Member